STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY	)	
d/b/a Ameren Illinois	)	
	)	Docket No. 15-0305
Proposed general increase in gas rates.	)	

AMEREN ILLINOIS COMPANY'S INITIAL BRIEF

Edward C. Fitzhenry Eric Dearmont Geoffrey F. Grammer Kristol Whatley **AMEREN SERVICES COMPANY** One Ameren Plaza 1901 Chouteau Avenue St. Louis, Missouri 63166 Telephone: (314) 554-3533 Fax: (314) 554-4014 efitzhenry@ameren.com edearmont@ameren.com ggramer@ameren.com kwhatley@ameren.com	Albert D. Sturtevant Christopher W. Flynn Anne M. Zehr Hanna M. Conger **WHITT STURTEVANT LLP** 180 North LaSalle Street, Suite 2001 Chicago, Illinois 60601 Telephone: 312-251-3017 sturtevant@whitt-sturtevant.com flynn@whitt-sturtevant.com zehr@whitt-sturtevant.com conger@whitt-sturtevant.com Christopher T. Kennedy **WHITT STURTEVANT LLP** 88 East Broad Street, Suite 1590 Columbus, Ohio 43215 Telephone: 614-224-3912 kennedy@whitt-sturtevant.com

Dated: October 6, 2015

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I. INTRODUCTION

A. Overview

Only four contested issues remain in this case. Each relates to adjustments proposed by Staff or Intervenors.

Each of the adjustments should be rejected.

The Attorney General (AG), Citizens Utility Board (CUB), Illinois Industrial Electric Customers (IIEC) and Staff all propose to adjust Ameren Illinois Company's (AIC, Ameren Illinois, or the Company) cash working capital calculation because the expense lead applied to the Illinois Electric Distribution Tax has changed since the last lead-lag study was performed in 2012. That change, however, is necessary to account for material and routine credit memoranda received from the Illinois Department of Revenue for the Electric Distribution Tax, and reflect AIC's actual experience. These credit memoranda have a quantifiable effect on AIC's cash flows – a point no party disputes (and Staff affirmatively agrees with). Therefore, it is reasonable to include the credit memoranda in the lead-lag study.

CUB/IIEC and the AG have also proposed several adjustments to the manner in which the collection lag is calculated in the lead-lag study. These adjustments should also be rejected because they are based on misunderstandings of AIC's data and lack record support.

In this proceeding, the AG has also targeted certain 2014 advertising expenses for disallowance. Many of the expenses challenged are outside charges to produce and publish communications that informed the public on specific, EIMA-related infrastructure improvements to the Company's electric delivery service systems. Expenses for these types of messages, in particular the messages that seek to educate and inform customers about EIMA projects, are recoverable in rates and were properly included in the revenue requirement. The record demonstrates that the costs associated with the advertising paid for messages intended to inform the customers about specific investments, programs, initiatives, benefits or opportunities that concern AIC's electric delivery service. Thus, the messages are in the best interest of consumers. For these reasons, the Commission should reject the AG's adjustment.

Lastly, Staff proposes to disallow the $154,000 that AIC spent in 2014 to recognize its employees' safety achievements and encourage future ones. (A small cost relative to the potential cost of a single injury.) Staff agrees that safety is important, and that recognizing safety accomplishments benefits customers and reduces costs. The basis for Staff's disallowance is its belief that this cost is duplicative of other safety-related incentive compensation. While both safety recognition spending and safety-related incentive compensation recognize and incentivize safety accomplishments, they do so differently. Safety-related incentive compensation expense is earned based on the performance of a large work group—a division or the entire Company. Safety recognition awards are earned on an individual or small work group (departmental) basis. The timing and types of reward are different too – for example, safety recognition awards may not be monetary. Thus, safety recognition awards and safety-related incentive compensation are not duplicative. Also, EIMA expressly allows recovery of both. So, AIC should recover both.

B. Legal Standard

The annual update of cost inputs and reconciliation for Rate MAP-P is governed by Section 220 ILCS 5/16-108.5(d) of the Public Utilities Act.

II. RATE BASE

A. Uncontested and Resolved Issues

1. Asset Retirement Obligations

Staff witness Hathhorn proposed an adjustment to remove asset retirement obligations (AROs) from AIC's electric rate base. (ICC Staff Ex. 2.0 at 7-8.) AIC agreed to remove the AROs from rate base, and proposed derivative adjustments to account for minor changes in the net plant and asset separation project calculations, and other related changes. (Ameren Ex. 10.01 at 4-5.) Ms. Hathhorn agreed these derivative adjustments are appropriate, and AIC therefore considers this matter resolved. (ICC Staff Ex. 7.0 at 2-3.)

B. Contested Issues

1. Cash Working Capital

Cash working capital is the amount of funds necessary to finance a utility's day-to-day operations and meet its operating expenses. (Ameren Ex. 8.0 at 3.) In order to determine how much cash is necessary to meet operating expenses, the Company must understand the timing of its cash inflows and outflows. (*Id.* at 4.) Cash inflows and outflows are analyzed in a lead-lag study, which determines the amount and timing of actual cash flows expected by the Company.

There are two primary components of a lead-lag study: revenue lags and expense leads. (*Id.* at 5.) The expense lead represents the total elapsed time between when a good or service is provided to the Company and when the Company pays for that good or service. (*Id.* at 6.) During the expense lead period, the Company has possession of *both* the good or service and the cash it will eventually use to pay its supplier for that good or service. (*Id.*) On the other hand, the revenue lag represents the total elapsed time between when the Company delivers electricity to its customers and when it receives payment from them. (*Id.* at 5.) During the revenue lag period, the Company has possession of *neither* the electricity nor the cash payment for it. (*Id.*) The revenue lag is compared against the expense lead to determine the Company's cash working capital requirement. (*Id.*)

a. Electric Distribution Tax

Illinois law imposes an Electric Distribution Tax (EDT) on utilities, like AIC, that distribute electricity in the state, based on the volume of kilowatt-hours the utility sells in a year. *See* 35 ILCS 620/1 *et seq.* As will be discussed in more detail below, the law requires AIC to make quarterly payments of its estimated liability for a tax year, but provides for a true-up if estimated payments in any year do not equal actual liability in that year. The law also provides for a credit if the state collects more than a cap set forth in the statute. The parties are in agreement that AIC's quarterly estimated tax payments should be included in the determination of cash working capital. But Staff, the AG, and CUB/IIEC argue that it is unreasonable to include the true-up payments and credits in the calculation. However, the credits and true-up payments have an actual effect on AIC's cash flows. It is therefore appropriate to include both the dollar amounts and the timing of the credits and true-up payments in determining AIC's cash working capital requirement. AIC's proposed expense lead for EDT is the only proposal that accurately reflects both the timing of credits and true-up payments, and their amounts.

i. The payment terms for the EDT are set forth in statute.

The amount of a utility's EDT liability in any given year is a function of the number of kilowatt-hours the utility sold in the year, multiplied by an amount set forth in statute. *See* 35 ILCS 620/2a.1. In March of each year, the law requires AIC to file a return with the Illinois Department of Revenue (ILDOR) on which AIC states the number of kilowatt-hours it sold in the prior year (Year 0). 35 ILCS 620/2a.2. In Year 1, the utility makes quarterly payments equal to the total number of kilowatt-hours sold in Year 0, multiplied by the tax rate in Year 0. *Id.*; (*see also* Ameren Ex. 16.0 at 5). In March of Year 2, AIC will again file a return stating its actual total kilowatt-hours sold in Year 1. (*Id.*) During Year 2, AIC will make quarterly payments based on the total Year 1 sales, and so forth. (*Id.*)

Thus, the EDT payments a utility makes during any year are *estimated*, based on the utility's sales in the prior year. Since the payments are estimated based on kilowatt-hours sold, the payments made in any given year will not be equal to the tax liability generated by the kilowatt-hours sold during that year. (*Id.*) Pursuant to the EDT statute, when AIC submits its annual return, it also compares its total payment in Year 1 (for example) to its actual sales during that year. (*Id.*) AIC pays any additional amount due with its tax return, or, if a refund is due, it is applied to the next quarterly payment. (*Id.*)

The EDT statute has one final relevant wrinkle: it imposes a cap on the ILDOR's total collections of EDT from *all electric distribution utilities* in any given year. 35 ILCS 620/2a.1(c). If the ILDOR collects more than the amount of the cap, it must return the excess to the utilities "in the proportion which the amount paid by the [utility] bears to the total amount paid by all such [utilities]." *Id.* The excess is returned via a credit memorandum, which states the credit amount. The credit amount is applied to reduce the next quarterly estimated payment.

ii. The Commission has specified the rate recovery mechanism for EDT.

AIC records its EDT expense in each year on its annual FERC Form 1. The amount recorded on the FERC Form 1 is the *net* EDT expense – the actual amount AIC paid in the year, taking into account its quarterly estimated payments during the year, along with any true-up payments made, and credit memoranda received. The Commission determined, in Dockets 09-0306, et al. (cons.), that AIC should charge customers for EDT expense in a separate line item via AIC's Tax Additions Tariff. *Cent. Ill. Pub. Serv. Co., et al.*, Dockets 09-0306 et al. (cons.), Order on Reh'g at 83-84 (Nov. 4, 2010). The Commission rejected the Ameren legacy utilities' proposal to conduct an annual reconciliation of EDT amounts to account for the impact of credit memoranda in a manner similar to pass-through taxes. *Id*. at 84. The effects of this ratemaking treatment will be discussed in more detail below.

iii. EDT credit memoranda actually impact AIC's cash flows.

The purpose of a lead-lag study is to analyze the timing of the Company's cash flows. (Ameren Ex. 8.0 at 4; *see also* ICC Staff Ex. 2.0 at 3.) It is undisputed that the quarterly EDT payments impact AIC's cash flows. (ICC Staff Ex. 7.0 at 4.) It is also undisputed that the EDT credit memoranda impacted AIC's cash flows in 2014, the period analyzed in the lead-lag study. (*Id.*) Staff expressly agreed that EDT credit memoranda impact the Company's cash flows, and neither AG nor CUB/IIEC contested that conclusion. (*Id.*)

Furthermore, there is no dispute regarding the date on which AIC received the EDT credit memorandum at issue in this case – December 20, 2013 – the amount of that credit memorandum – approximately $6.2 million – or the EDT liability period to which it applies – 2012. (*See* Ameren Ex. 12.0 (Rev.) at 4, 7.) AIC's proposed expense lead is the only proposal in this case that accurately reflects all of these undisputed facts.

iv. Because EDT credit memoranda actually affect cash flows, AIC included them in the lead-lag study.

At the time of AIC's last lead-lag study, which was conducted in preparation for Docket 12-0001, the ILDOR issued credit memoranda on a more sporadic basis, and in widely varying amounts. (*Id.* at 7.) For example, the lead-lag study AIC conducted in preparation for Docket 12-0001 considered the twelve months ended September 2010. (*Id.*) During that study period, AIC received credit memoranda totaling $0.52. (*Id.*) Because the credit memoranda were less consistent leading up to Docket 12-0001, AIC did not include them in the lead-lag analysis conducted in that docket.

In the years between Docket 12-0001 and the current case, however, AIC has received large credit memoranda on a routine basis. The ILDOR has issued credit memoranda in relatively similar amounts, and on a consistent annual basis. (Ameren Ex. 16.0 at 9; *see also* CUB/IIEC Ex. 2.0 at 23 (noting that "receiving a significant credit memo is a recurring event").) In fact, in each of the last four years, AIC has received a credit memorandum exceeding $4.7 million dollars. The following chart illustrates the credit memoranda AIC has received since the study period used for the lead-lag analysis in Docket 12-0001, including the memorandum AIC expects to receive this year:

Company	Liability Period Ended December 31	Credit Issuance Date	Amount of Credit
Ameren CILCO	2008	January 26, 2011	$629,395.26
Ameren CIPS	2008	January 26, 2011	$1,687,725.27
Ameren IP	2008	January 26, 2011	$2,264,553.68
Ameren CILCO	2008	February 25, 2011	$23,271.66
Ameren CIPS	2008	February 25, 2011	$72,742.48
Ameren IP	2008	February 25, 2011	$412,088.27
Ameren CILCO	2009	September 29, 2010	$0.27
Ameren IP	2009	September 29, 2010	$0.25
Ameren CILCO	2009	May 13, 2011	$433,814.84
Ameren CIPS	2009	May 13, 2011	$1,323,595.36
Ameren IP	2009	May 13, 2011	$2,149,833.11
Ameren Illinois	2010	August 10, 2012	$4,799,077.47
Ameren Illinois	2011	August 2, 2013	$5,856,649.00
Ameren Illinois	2012	December 20, 2013	$6,207,857.00
Ameren Illinois	2013	December 24, 2014	$6,709,666.00
Ameren Illinois	2014 (estimated)	December 2015 (estimated)	$6,058,691.00

(Ameren Ex. 16.0 at 9.) Because the credit memoranda have a consistent and material impact on cash flows, AIC included them in the lead-lag study in this case.

v. Because EDT credit memoranda are material and being provided routinely, including them in the lead-lag study is reasonable.

The controversy in this case arose because the expense lead that results when credit memoranda are included in the lead-lag study is different than the expense lead that resulted from prior lead-lag studies, where the memoranda were not included. Staff, the AG, and CUB/IIEC point to the difference in the EDT expense lead between this case and Docket 12-0001 as evidence that AIC's proposed expense lead in this case is unreasonable. (*See* ICC Staff Ex. 7.0 at 5-6; CUB/IIEC Ex. 1.0 at 16; AG Ex. 1.0 at 36.) But the magnitude of the difference in the expense lead is directly correlated to the magnitude of the actual impact the credit memoranda have on AIC's cash working capital requirement. It would be unreasonable to refuse to reflect the impact of something—like the credit memoranda—that is *known* to have a large impact on cash flows, simply because it has a large impact on the related CWC requirement. On the contrary, because the credit memoranda have an actual effect, it is reasonable to include it.

This difference between the result of AIC's current lead-lag study and the prior lead-lag study is the *only* basis for Staff's argument that the EDT credit memoranda should be excluded from the cash working capital analysis. (ICC Staff Ex. 7.0 at 4-6.) To be clear, Staff does not challenge the fact that the credit memorandum had a real impact on AIC's cash flows in the lead-lag study period, or the dollar amount of the impact; nor does Staff challenge the fact that AIC complied with the EDT statute and prior Commission orders regarding EDT expense. Because Staff's proposal is based only on a comparison between the expense lead in this case and the expense lead that resulted from AIC's prior lead-lag study, and Staff *agrees* with AIC that the credit memoranda impact AIC's cash flows, Staff's position should be rejected.

vi. Mr. Brosch's testimony regarding when ratepayers receive the benefit of EDT credit memoranda is irrelevant to the cash working capital analysis.

AG witness Brosch acknowledges that AIC has received credit memoranda on a consistent basis in recent years, and does not disagree that the credit memoranda impact AIC's cash flows. (*See* AG Ex. 1.0 at 36.) And Mr. Brosch does not argue that AIC's lead-lag study is inaccurate in any way. Instead, Mr. Brosch makes two arguments related to the impact of the credit memoranda on *ratepayers*. Mr. Brosch's focus on ratepayer impacts obscures the question at issue, which is how much cash working capital the Company requires in order to meet its EDT liability.

In direct testimony, Mr. Brosch argued that credit memoranda should be excluded from the lead-lag analysis "[a]bsent a showing by the Company that EDT charges to customers through the Tax Additions tariff were reduced *in anticipation* of future credit memos from the state." (AG Ex. 1.0 at 37 (emphasis in original).) AIC made this showing.

When the Company receives credit memoranda, it reduces the EDT expense listed on its FERC Form 1 by the amount of the memoranda. In other words, as indicated above, FERC Form 1 reflects *net* EDT expense. Since the FERC Form 1 amount is what is reflected in rates, as Ameren witness Stafford explained, in any given rate period, AIC's customers are receiving the benefit of prior credit memoranda. (Ameren Ex. 16.0 at 12.) In other words, the net EDT expense in Year 1 is recorded on the Year 1 FERC Form 1, which is used in a formula rate case in Year 2 to set rates that go into effect in Year 3, including the charge through the Tax Additions Tariff. (*Id.*) Thus, the Tax Additions Tariff charges in effect in Year 3 have already been reduced by the amount of a prior credit memorandum.

In his rebuttal testimony, Mr. Brosch altered his position, arguing that because AIC "is collecting EDT from customers using accounting procedures that flow EDT credit memoranda to customers on a delayed basis," the lead-lag study should not recognize the credit memoranda. (AG Ex. 3.0 at 35.) This argument ignores the fact that, in each year, customers are benefitting from credit memoranda recorded on the FERC Form 1 that was used to set rates. (Ameren Ex. 16.0 at 12.) As discussed above, AIC's EDT expense included in rates in each year has *already* been reduced by the amount of credit memoranda received during prior years. Since the amounts of credit memoranda have been consistent over the course of recent years (*see* Ameren Ex. 16.0 at 9), the benefit ratepayers receive in any given year is roughly commensurate with the amount of any credit memoranda AIC will receive during that year. If there is any difference between the credit memoranda incorporated into rates and the credit memoranda issued during the year, that difference is returned to customers (or the Company) via the reconciliation, with interest at the weighted average cost of capital. (*Id.* at 12.) Therefore, customers are made whole if the amount of a credit memorandum included in current rates differs from the amount of the credit memorandum issued for the current liability period. (*Id.* at 13.)

Mr. Brosch's rebuttal position also ignores the fact that the Commission rejected AIC's proposal in Docket 09-0306 to conduct reconciliations of the EDT in the Tax Additions Tariff. *Cent. Ill. Pub. Serv. Co., et al.*, Dockets 09-0306 et al. (Cons.), Order on Reh'g at 83-84. Mr. Brosch's position is that the credit memoranda should not be considered in the lead-lag study because AIC "flow[s] EDT credit memoranda to customers on a delayed basis." (AG Ex. 2.0 at 35.) But AIC flows credit memoranda to customers using the same mechanism as all other rate components. In Docket 09-0306, AIC proposed an annual reconciliation mechanism for EDT included in the Tax Additions Tariff. *Cent. Ill. Pub. Serv. Co., et al.*, Dockets 09-0306 et al. (Cons.), Order on Reh'g at 83-84. That reconciliation mechanism would have passed credit memoranda and true-up payments to ratepayers on an annual basis. *Id.* But the Commission determined that an annual reconciliation was unnecessary. AIC's current practice abides by that Order, and AIC should not be penalized for that compliance by a reduction to its cash working capital.

More importantly, Mr. Brosch's argument ignores the fact that customer benefits are not relevant to the analysis of cash working capital. The purpose of a lead-lag study is to accurately determine the timing of cash inflows and outflows *at the Company*. The lead-lag study is *not* intended to study the flow or timing of benefits received by *customers*. And the question of rate recovery of EDT expense and credits is separate from the question of the cash working capital required to make EDT payments. (Ameren Ex. 16.0 at 11.) Mr. Brosch has not proposed adjustments to AIC's Tax Additions Tariff to account for or allocate EDT expense differently.

Mr. Brosch does not argue that AIC's lead-lag study is inaccurate in any way. AIC's lead-lag study accurately captures the inflows and outflows of cash related to EDT.

vii. Mr. Gorman's proposal should be rejected because it considers credit memoranda in computing the amount of cash flows, but not the timing of those cash flows.

CUB/IIEC witness Gorman's primary proposal is that the expense lead applicable to EDT should remain the same as calculated in Docket 12-0001. (CUB/IIEC Ex. 1.0 at 18; CUB/IIEC Ex. 2.0 at 24.) As explained above, circumstances have changed since the lead-lag study relied upon in Docket 12-0001 was conducted. Specifically, since that time, ILDOR has consistently issued credit memoranda on a routine annual basis, and those credit memoranda have been relatively consistent in amount. In fact, Mr. Gorman acknowledges that "receiving a significant credit memo is a recurring event." (CUB/IIEC Ex. 2.0 at 23.) Given Mr. Gorman's agreement that AIC receives significant credit memoranda on a recurring basis, his proposal to exclude them from the lead-lag study is illogical.

Mr. Gorman's secondary proposal is to calculate one expense lead for the total EDT liability in a year, and a separate expense lead for the credit memoranda and true-ups in that year. (Ameren Ex. 18.0 at 3.) Mr. Gorman would apply Staff's proposed expense lead of 29.38 days to the total EDT liability in 2014.[1] (CUB/IIEC Ex. 2.5.) Mr. Gorman would apply a separate expense lead of 19.15 days to the EDT credit memorandum and true-up. (*Id.*) Mr. Gorman's rationale for this proposal is that "the vast majority of the current year's tax continues to be paid through four quarterly payments," (CUB/IIEC Ex. 1.0 at 17), and there has been no "change [in] the timing of the installments." (CUB/IIEC Ex. 2.0 at 24.) Mr. Gorman is correct that the *timing* of AIC's quarterly payments has not changed. But the EDT credit memoranda have an undisputed effect on the *amount* of those payments. And the credit memoranda are the

[1] Staff calculated this expense lead by removing the credit memorandum and true-up from the calculation altogether, and considering the full liability in the year.

undisputed cause of the change in amount.

In conducting a lead-lag study, if a cash inflow or outflow is considered, the point in time at which the inflow and outflow occur must also be considered. Mr. Gorman's proposal does not accurately capture the timing and cash flow impact of the credit memoranda and true up. It must be rejected.

viii. If the Commission considers AIC's change to the lead lag is study to be too substantial, AIC's alternate proposal provides a reasonable compromise.

As discussed above, including the credit memoranda in the lead-lag study alters the expense lead for EDT significantly. This difference illustrates the significance of the impact of credit memoranda on AIC's cash working capital requirement, and supports the reasonableness of including the credit memoranda in the lead-lag study.

However, AIC offered an alternative if the Commission is of the opinion that the change in the expense lead is too great. (Ameren Ex. 10.0 at 16.) AIC's primary proposal calculates the expense lead beginning at the midpoint of the liability period to which a credit memorandum relates. In contrast, its alternative proposal calculates the expense lead beginning at the midpoint of the year in which AIC receives the credit memoranda from the ILDOR. The alternative proposal results in an expense lead of 0.85 days. (*Id.*)

b. Collection Lag

The revenue lag has several components: the service lag, the billing lag, the collections lag, the payment processing lag, and the bank float lag. (*Id.* at 6.) Each component represents a distinct period of time. Parties have proposed adjustments to AIC's collections lag. The collections lag represents the average period of time between the date an AIC customer receives a bill and the date the Company receives payment from its customers. (*Id.* at 7.)

i. AIC's collection lag is based on an improved accounts receivable report.

In May 2010, AIC began using a new database report (Report) to manage its accounts receivable. (Ameren Ex. 12.0 (Rev.) at 12-13.) AIC used the new Report to calculate the collections lag in this case. (*Id.*)

The Report differs from the data AIC used to calculate its collections lag in past cases because it ties directly to AIC's General Ledger, and categorizes accounts receivable by type: receivables associated with budget billing, Deferred Payment Arrangements (DPAs), and a general category for all other accounts. (Ameren Ex. 18.0 at 5; Ameren Ex. 12.0 (Rev.) at 13.) The Report is created on a monthly basis, and assigns each account in the "other" accounts receivable category to a subcategory based on the number of days the account has been outstanding at the time of the Report: 0-29 days, 30-59 days, 60-89 days, 90-119 days, and 120+ days. (*Id.*) The Report is the most accurate reflection of the accounts receivable in AIC's General Ledger, and is used in other analyses and audits. (Ameren Ex. 8.0 at 8.) In prior cases, the data on which AIC based its collection lag did not include or identify receivables within DPAs and budget billing plans.

CUB/IIEC and the AG have proposed several adjustments to the manner in which the collection lag is calculated using the Report data. The parties have resolved the question of whether, and how, DPAs should be considered in the analysis. But disputes remain regarding certain assumptions applied to the days-outstanding subcategories of the general accounts receivable category. CUB/IIEC proposes an adjustment to the portion of the general accounts receivable estimated to be uncollectible. CUB/IIEC and the AG each propose adjustments to the midpoints assigned to the accounts in the days-outstanding subcategories, although their proposals differ. Each of these adjustments, as well as resolved concerns related to DPAs, is addressed below.

ii. The parties agree AIC's treatment of Deferred Payment Agreements is appropriate.

In testimony, CUB/IIEC and AG witnesses expressed preliminary concerns regarding the inclusion of a separate category for DPAs within the collection lag analysis.

First, CUB/IIEC witness Gorman questioned whether accounts included in the DPA category were also included in the general accounts receivable days-outstanding categories, so that the DPA accounts might be double-counted in the analysis. (CUB/IIEC Ex. 1.0 at 11-12.) In response, AIC explained that, when a customer enters a DPA, that customer's receivables are removed from the general days-outstanding categories, and placed in the separate DPA category. (Ameren Ex. 12.0 (Rev.) at 14.) Thus, the receivables are in only one category at a time, and are not double-counted. (*Id.*) Mr. Gorman stated that this explanation satisfied his concern. (CUB/IIEC Ex. 2.0 at 6.) AIC understands this issue to be resolved.

Second, AG witness Brosch proposed that the study period for DPAs be adjusted to reflect an update to DPA policies related to revised Part 280 that occurred in late June 2014. (AG Ex. 1.0 at 29.) AIC agreed to this proposal, since the updated policies may affect the volume of DPAs and their length. (Ameren Ex. 12.0 (Rev.) at 14.) AIC understands this issue to be resolved.

Since the two questions regarding inclusion of DPAs in the analysis of the collection lag have been resolved, it is undisputed that DPAs should be included in the collection lag analysis, and that AIC's collection lag correctly captures the effect of DPAs.

iii. The parties agree a portion of accounts receivable should be excluded from the analysis as uncollectible.

In calculating its collection lag, AIC assumed that a portion of its accounts receivable would eventually become uncollectible, and excluded the uncollectibles from the analysis. As discussed above, the collections lag measures the time between when the Company issues bills and when customers pay those bills. (Ameren Ex. 8.0 at 7.) Thus, if no payment is received on a particular account, the collection lag for that account would be the period from when the amount is billed until the amount is written-off. Excluding uncollectibles from the analysis appropriately recognizes this. There is no dispute among the parties that a portion of accounts receivable associated with uncollectible accounts should be excluded from the collections lag.

iv. The Company estimated 1.04% of its accounts receivable would become uncollectible; CUB/IIEC's alternative should be rejected.

The Company estimated that 1.04% of accounts receivable in the budget billing, 0-29 day, 30-59 day, and 60-89 day sub-categories would eventually become uncollectible, and that 20% of accounts receivable in the 90-119 day and 120+ day categories would become uncollectible. (Ameren Ex. 12.0 (Rev.) at 15.) AIC's 1.04% and 20% uncollectible factors are based on AIC's experience with historical levels of bad debts, general economic conditions, the age of the receivables, and other factors that indicate uncollectibility. (*Id.*)

CUB/IIEC witness Gorman proposed that the 1.04% factor be applied only to budget billing and accounts receivable outstanding between 0-29 days. Mr. Gorman would remove 1.04% of the dollars in each of those categories as uncollectible. (*See* CUB/IIEC Ex. 1.6.) But for accounts receivable outstanding 30-59 days, 60-89 days, 90-119 days, and 120+ days, Mr. Gorman assumed that the exact *dollar* amount of uncollectibles resulting from the application of the 1.04% bad debt factor to the accounts receivable outstanding 0-29 days will also be the *dollar* amount of uncollectibles in each of the other aging sub-categories. (*See id.*; *see also* Ameren Ex. 18.0 at 4.) In other words, Mr. Gorman focuses on dollars and not percentages for most of the receivables categories. Mr. Gorman stated, "the amount of uncollectibles/bad debts that was determined for the 0-29 days billing category is the level that continues to exist as the unpaid accounts receivable balances progress through the 30-60 Days to 120+ Days categories." (CUB/IIEC Ex. 2.0 at 8.)

This represents a fundamental misunderstanding of the data on which AIC's collections lag is based, and so seeks to remedy a problem that does not exist. It also grossly overstates AIC's actual uncollectibles experience. It should be rejected.

Mr. Gorman mistakenly assumes that AIC's accounts receivable data includes only its most recent billings—those in the 0-29 day subcategory—and then forecasts the portion of those receivables that will remain outstanding through each of the more advanced aging categories.

But that is *not* the case; AIC's data captures all accounts receivable on the date the Report was created, and assigns each account to a subcategory based on the days the account was outstanding *on that date*. (Ameren Ex. 18.0 at 5.) The Report acts as a snapshot, not a forecast: AIC's collection lag was based on a single Report, and that Report reflects the fact that, on the day the Report was created, some accounts receivable had been outstanding for 25 days, others for 54 days, others for other periods of time. The Report does not attempt to estimate what portion of the Company's most recent billings will remain outstanding past 30 days, past 60 days, past 90 days, and so on. The Report reflects the fact that some accounts *actually have* remained outstanding for certain periods of time on the date the Report was created. Therefore, although some portion of the accounts receivable in the 0-29 day subcategory may advance through the more advanced aging categories and appear in those advanced aging categories on *later* reports, the single Report on which AIC based its collection lag does not capture that advancement.

On any given Report, each account is included in one aging subcategory, and the aging subcategories are mutually exclusive, so that there is no overlap between the accounts receivable included in the 0-29 day subcategory and any other subcategory. (*Id.*) Because the categories are mutually exclusive, the dollar value of uncollectible accounts in the 0-29 day subcategory will not be the same as the dollar value of uncollectible accounts in each subsequent subcategory. Thus, Mr. Gorman's proposal is based on a misunderstanding of the data.

Based on this misunderstanding, Mr. Gorman proposes that the uncollectible dollars resulting from application of the 1.04% bad debt factor to the 0-29 day subcategory will be uncollectible in each more advanced aging subcategory. But this removes anywhere from 16.24% to 67.42% of the accounts receivable in each aging subcategory as uncollectible—producing an absurd result. (Ameren Ex. 18.0 at 7.) In total, Mr. Gorman's proposal would result in a total AIC uncollectible percentage of 4.72%. (Ameren Ex. 12.0 (Rev.) at 16.) However, AIC's *actual* bad debt percentage in 2014 was 0.87%, and its average bad debt percentage in the last five years was 0.84%. (Ameren Ex. 18.0 at 6.) Thus, if Mr. Gorman's proposal accurately portrayed AIC's experience, its bad debt percentage would be more than *five times greater* than its actual bad debt percentages. (*Id.* at 7.)

Since Mr. Gorman appears to have misunderstood the data on which he based his adjustment, the adjustment does not correspond with AIC's actual experience, and it should not be adopted.

In contrast, AIC's approach is conservative, and corresponds with its actual experience. AIC removed 1.04% of accounts receivable that were outstanding for less than 90 days. (Ameren Ex. 12.0 (Rev.) at 15.) The 1.04% is just slightly higher than AIC's actual bad debt experience, and so ensures that all bad debts will be accounted for in the collection lag analysis. AIC removed 20% of accounts receivable that were outstanding for more than 90 days. (*Id.*) Again, this is a conservative assumption, but it accounts for the fact that it is significantly more likely an account that remains outstanding for a long period of time will eventually become uncollectible.

v. Intervenors' proposals regarding the midpoints applicable to aging subcategories should be rejected

The collections lag represents the period of time between when AIC's customers receive their bills, and when AIC receives payment from its customers. (Ameren Ex. 8.0 at 7.) AIC used the aging subcategories in the Report to simplify its analysis of the collections lag. Rather than determine how long each of the hundreds of thousands of accounts receivable had been outstanding, AIC used the midpoint of each subcategory as a reasonable proxy for the number of days each account in that subcategory had been outstanding. (*Id.*) In other words, for purposes of calculating the collection lag, AIC assumed that, on average, accounts receivable outstanding between 0 and 29 days would be paid on the 15th day, accounts outstanding between 30 and 59 days would be paid on the 45th day, accounts outstanding between 60 and 89 days would be paid on the 75th day, and accounts outstanding between 90 and 119 days would be paid on the 105th day. This is the same method AIC relied upon, and the Commission approved, in prior rate cases. (Ameren Ex. 12.0 (Rev.) at 13.)

(a) The CUB/IIEC proposal should be rejected because it misunderstands the data.

CUB/IIEC proposes an adjustment to the collections lag, which CUB/IIEC witness Mr. Gorman believes is necessary to accurately capture the total number of days each account receivable is outstanding. However, this proposal is based on the same misconception that underlies Mr. Gorman's proposal regarding uncollectible percentages in the collection lag—Mr. Gorman assumes that the data on which AIC's collection lag is based includes all accounts receivable in the 0-29 day subcategory, and that each subsequent aging subcategory is a forecast of how long each account receivable in the 0-29 subcategory will remain outstanding. As explained above, this assumption is incorrect. Because CUB/IIEC's proposal on this issue is based on Mr. Gorman's fundamental misunderstanding of the data, it should be rejected.

Mr. Gorman's misunderstanding of the data leads him to believe that AIC is proposing to add the collection lags in each subcategory together, so that AIC would apply a 60-day collection lag to the 30-59 day subcategory (by adding the 15-day collection lag for the 0-29 day subcategory to the 45-day collection lag of the 30-59 day subcategory). (CUB/IIEC Ex. 1.0 at 15-16; *see also* CUB/IIEC Ex. 1.5.) Likewise, Mr. Gorman appears to believe AIC would apply a 120-day collection lag to the 60-89 day subcategory (by adding the 75-day collection lag for the 60-89 day subcategory to the 45-day lag for the 30-59 day subcategory). (*Id.*) But this is decidedly *not* what AIC has proposed. As explained by Ameren witness Weiss, Ameren and CUB/IIEC *agree* that a 45-day collection lag should be applied to accounts receivable in the 30-59 day subcategory, and that a 75-day collection lag should be applied to accounts receivable in the 60-89 day category, and so on. (Ameren Ex. 18.0 at 10-11.) AIC's calculation does not add the collections lags for each subcategory together, because the subcategories are not cumulative and each account is included in only one category. Instead, AIC assigns each account a single collection lag based on its subcategory. Because he misunderstands what AIC has proposed to do, Mr. Gorman's proposal results in a 30-day collection lag for accounts receivable in the 30-60 day subcategory, rather than the 45-day lag he states is appropriate. (*See* Ameren Ex. 18.1.)

Again, since Mr. Gorman has misunderstood the data on which he based his proposal, his adjustment should be rejected.

(b) The AG's proposal should be rejected because there is no support in the record for a "middle of the front half" collection date.

In his direct testimony, AG witness Brosch argued that customers are more likely to pay closer to the beginning of the 30-59 day, 60-89 day, and 90-119 day aging subcategories, rather than ratably over the course of each month. (AG Ex. 1.0 at 31.) Therefore, Mr. Brosch proposed that those subcategories be assigned a collection date in the "middle of the front half," instead of the midpoint of the month. (*Id.* at 31-32.) For example, instead of the 45-day collection date AIC assumed for the 30-59 day subcategory, Mr. Brosch proposed a 37.5-day collection date. (*Id.*) In support of his "middle of the front half" approach, Mr. Brosch cited the AIC tariff that applies a late charge to past-due accounts, and the fact that there are more accounts receivable in the less-advanced aging subcategories. (*Id.* at 32-33.) However, he admits that his proposal is not based on any actual empirical data, but rather is an assumption. (*See* Ameren Ex. 12.0 (Rev.) at 19 (citing AIC-AG 2.06).)

In response to Mr. Brosch's "middle of the front half" proposal, Ameren witness Weiss presented customer remittance data showing that customers typically remit payment at approximately the midpoint of each month, rather than the middle of the front half of the month, as Mr. Brosch had hypothesized. (Ameren Ex. 12.0 (Rev.) at 21-22.)

In his rebuttal testimony, Mr. Brosch did not argue that the remittance data supported his proposal that the collection date for each of the aging subcategories should be assumed to be the "middle of the front half." (*See generally* AG Ex. 3.0 at 25-30.) Instead, Mr. Brosch argued that Mr. Weiss had "forced" the data into the aging subcategories, and that "an overall collection lag [was] the only meaningful result needed from the analysis." (*Id.* at 27, 29.) Therefore, Mr. Brosch averaged all the customer remittance dates together to obtain a collection lag. (*Id.*) In light of this change in direction, it is not clear to AIC exactly how the AG would propose to calculate the collection lag.

Two things are clear, however: first, a "middle of the front half" assumed collection date does not reflect AIC's actual experience; and second, it is inappropriate to calculate a collection lag using only customer remittance data, rather than all accounts receivable data. In light of these two facts, AIC's proposed collection date is reasonable and accurate, and should be adopted.

The AG has provided no support for its "middle of the front half" assumed collection date, and the data in the record shows that this is not when customers pay. In response to a data request, AG witness Brosch stated that "no empirical evidence was needed or has been gathered to support" his middle of the front half collection date. (*See* Ameren Ex. 12.0 (Rev.) at 19 (citing AIC-AG 2.06).) And in rebuttal testimony, Mr. Brosch conceded that there was no record support for his middle of the front half collection date proposal. (AG Ex. 3.0 at 24.)

The only rationale the AG supplied for the middle-of-the-front-half assumption is that AIC's tariffs apply a late payment charge to past-due bills. From this tariff provision, the AG extrapolates that customers have an incentive to pay earlier in the month rather than later. (AG Ex. 1.0 at 24.) But, as explained by Mr. Weiss, the existence of AIC's aged accounts receivable demonstrates that the tariff does not prevent late payments. (Ameren Ex. 12.0 (Rev.) at 19.) Furthermore, the tariff applies late payment fees on a monthly basis, rather than a daily or weekly basis, so that once a bill is past-due, the late payment charge provides no incentive to pay the bill on the 31st day as opposed to the 59th day, because the late payment charge will be the same. (*Id.*)

(c) Customer remittance data does not adequately capture the collection lag.

Using the customer remittance data, Mr. Brosch calculates a collections lag of 33.73 days, approximately two days shorter than AIC's proposed collections lag. (AG Ex. 3.0 at 29.) Although the AG does not propose to base the collections lag on customer remittance data, the AG argues that the customer remittance data provided in AIC's rebuttal testimony supports a collection lag that is slightly lower than AIC's proposal. (AG Ex. 3.0 at 29.) On the contrary, the customer remittance data supports AIC's proposed collections lag.

There is an important distinction between customer remittance data and accounts receivable data. Customer remittance data includes *only* those customers that actually remit payment, and therefore does not include amounts that are due but not yet paid, such as amounts in more advanced aging subcategories and amounts within DPAs. (Ameren Ex. 18.0 at 19.) Given the fact that remittance data excludes amounts that are outstanding for longer periods of time, it is not surprising that the remittance data yields a slightly shorter lag. However, the lag calculated using the remittance data is only two days shorter than the lag calculated using the accounts receivable data. (*Id.* at 18-19.) This supports the reasonableness of AIC's collections lag.

Moreover, accounts receivable data includes *all* outstanding balances, and is therefore a more complete data set, and more accurately reflects AIC's actual experience. (*Id.*) The collections lag should be based on accounts receivable data, as AIC has proposed, rather than customer remittance data.

C. Original Cost Determination

Staff witness Hathhorn accepted the Company's recommended original cost determination, and recommended the following language for inclusion in the Commission's order:

> (x) the Commission, based on AIC's proposed original cost of plant in service as of December 31, 2014, before adjustments, of $5,825,566,000 and reflecting the Commission's determination adjusting that figure, unconditionally approves $5,825,566,000 as the composite original jurisdictional distribution services plant in service as of December 31, 2014.

(ICC Staff Ex. 7.0 at 11-12.)

D. Recommended Rate Base

1. Filing Year

AIC's proposed rate base for the filing year is shown on Ameren Exhibit 10.1, Schedule FR A-1.

2. Reconciliation Year

AIC's proposed rate base for the reconciliation year is shown on Ameren Exhibit 10.1, Schedule FR A-1 REC. The return on equity collar adjustment is $0. (Ameren Ex. 10.0 at 2.)

III. OPERATING REVENUES AND EXPENSES

A. Uncontested and Resolved Issues

1. State Income Tax

AG witness Brosch and CUB/IIEC witness Gorman each proposed adjustments to the state corporate income tax rate used to calculate income tax expense in this proceeding. (AG Ex. 1.0 at 8-19; CUB/IIEC Ex. 1.0 at 19-20.) However, both Mr. Brosch and Mr. Gorman withdrew their proposed adjustments in rebuttal testimony, based in additional information AIC provided to the parties in discovery. (AG Ex. 3.0 at 2; CUB/IIEC Ex. 2.0 at 5.) AIC therefore considers this matter resolved.

2. Charitable Contributions

Staff witness Knepler proposed an adjustment to reduce AIC's 2014 charitable contributions to remove contributions that were more properly allocated to the Company's gas operations. (ICC Staff Ex. 3.0 at 2-3.) AIC accepted this adjustment, and considers this matter resolved. (Ameren Ex. 11.0 at 3; ICC Staff Ex. 8.0 at 2.)

3. Advertising Expenses (but for 3.b.i.)

a. AIC Self Disallowances

Ameren's Schedules C-8 and C-2.14 identify ratemaking adjustments for disallowed communication expenses. (*See* Ameren Ex. 5.0 at 26.) AIC also identified additional expenses in Account 908 that were excluded from its proposed revenue requirement. (*Id.*) No party contested AIC's self-disallowances, and AIC considers these issues resolved.

b. Staff Adjustments

Staff witness Knepler proposed an adjustment to reduce AIC's Educational and Informational Advertising Expense for expenses that were more properly allocated to the Company's gas operations, expenses that AIC agreed to withdraw, and expenses that were reclassified as non-operating expenses. (ICC Staff Ex. 3.0 at 3.) AIC accepted these adjustments, with a correction to the factor used to allocate the adjustment to electric distribution operations. (Ameren Ex. 11.0 at 5.) Mr. Knepler agreed that the Company's modified calculation was proper. (ICC Staff Ex. 8.0 at 3.) AIC therefore considers this issue resolved.

c. Undocumented Account 909 Expenses

AG witness Brosch proposed an adjustment to exclude expenses he stated was "undocumented." (AG Ex. 1.0 at 22-23.) AIC provided additional information regarding the vendor service and work product for the expenses Mr. Brosch identified. (Ameren Ex. 11.0 at 9-13.) Mr. Brosch withdrew his proposed adjustment. (AG Ex. 3.0 at 6.) AIC considers this matter resolved.

4. Safety Awareness and Recognition Spending (but for III.B.2)

Staff witness Ostrander proposed to disallow the approximately $301,000 AIC spent in 2014 to recognize and award its employees' individual and departmental safety accomplishments. (ICC Staff Ex. 4.0 at 2-3, Sch. 4.01.) For the reason explained below and as noted in Section

III.A.7, AIC accepted approximately $147,000 of Mr. Ostrander's proposed adjustment. (Ameren Ex. 13.0 at 13-14; ICC Staff Ex. 9.0 at 2.) The remaining approximately $154,000 cost is contested. (*See infra* § III.B.2.)

5. Outside Services

Staff witness Knepler proposed an adjustment to remove certain payments to Simantel Group, an outside advertising agency. (ICC Staff Ex. 3.0 at 4-5.) Mr. Knepler's adjustment concerned three payments for three different deliverables provided by Simantel. (Ameren Ex. 11.0 at 6.) AIC accepted this adjustment, with a correction to the factor used to allocate the adjustment to electric distribution operations. (*Id.*) Mr. Knepler agreed the Company has correctly calculated the adjustment amount. (ICC Staff Ex. 8.0 at 3-4.) AIC therefore considers this matter resolved.

6. Industry Dues

Staff witness Ostrander proposed an adjustment to reduce industry association dues expenses for legal fees Mr. Ostrander contended were not related to electric delivery service. (ICC Staff Ex. 4.0 at 4.) The fees at issue were paid to a law firm, as a member of the Utilities Water Act Group, which participates in rulemakings before the United States Environmental Protection Agency, concerning the Clean Water Act. (*Id.*) AIC accepted Mr. Ostrander's adjustment, (Ameren Ex. 10.0 at 6), and considers this matter resolved.

7. Injuries and Damages

Staff witness Ostrander proposed an adjustment to Individual Short-Term Recognition Spending, which is a component of Account 925 Injuries and Damages. (ICC Staff Ex. 4.0, Sch. 4.01, l. 1.) AIC accepted this adjustment, (Ameren Ex. 10.6 at 2).

8. Rate Case Expense

Staff witness Hathhorn recommended that the Commission approve AIC's rate case expense amount, but requested additional documentation to be filed with AIC's rebuttal testimony. (ICC Staff Ex. 2.0 at 8.) AIC provided the requested documentation. (Ameren Ex. 10.7.) Ms. Hathhorn recommended the following language for inclusion in the Commission's order reflecting the agreed rate case expense amount:

> The Commission has considered the costs expended by AIC to compensate attorneys and technical experts to prepare and litigate rate case proceedings and assesses that the amount included as rate case expense in the revenue requirements of $2,355,000 is just and reasonable pursuant to Section 9-229 of the Act. This amount includes the following costs: (1) $909,000 amortized rate case expenses associated with the initial formula rate proceeding, Docket No. 12-0001, and $14,000 of charges for Docket No. 12-0001 incurred in 2014; (2) $24,000 associated with Docket No. 12-0293; (3) $159,000 associated with Docket No. 13-0301; (4) $1,217,000 associated with Docket No. 14-0317; and (5) $32,000 associated with Docket No. 15-0305. The Commission also finds that the unamortized balance of charges for Docket No. 12-0001 is zero.

(ICC Staff Ex. 7.0 at 7.) AIC considers this matter resolved.

B. Contested Issues

1. Advertising Expenses

AIC's central mission is to provide safe and reliable energy services. Fulfilling that mission effectively and efficiently requires communications between the utility and consumers. The Public Utilities Act recognizes that regulated utilities still need to interact and speak with the public through paid media. The Act refers to these interactions and transmitted messages as "advertising." The Act authorizes the recoverability of "advertising" expenses in rates. And the Act identifies certain allowable, but not exclusive, categories of "advertising." Messages that discuss safety, efficiency and conservation are among the recoverable categories. They are not the only recoverable messages, however. Other categories are recoverable, where the advertising is not political, promotional, or goodwill, or where it is in the best interest of the consumers. In this proceeding, the AG has targeted certain 2014 advertising expenses for disallowance. The amount of the total disallowance is substantial: ($721,000) for the filing year and ($835,000) for the reconciliation year. The record shows, however, that the AG's adjustments are unsupported.

In preparing its rate filing, AIC reviewed its 2014 advertising expenses to verify that they were recoverable. Many of the expenses challenged are outside charges to produce and publish communications that informed the public on specific, EIMA-related infrastructure improvements to the Company's electric delivery service systems. The remaining charges are minor amounts paid for Facebook social media messaging to engage in real-time dialogues with customers on their energy concerns, and for radio advertisements to encourage the relocation or expansion of businesses in AIC's service territory or inform the public on employment opportunities. The Company believes—and the record supports the finding—that expenses for these types of messages, in particular the messages that seek to educate and inform customers on EIMA projects, are recoverable in rates and were properly included in the revenue requirement.

The AG's witness, Mr. Brosch, claims that these expenses are not recoverable because they paid for "goodwill" advertising. That is not the case. The Act prohibits the recoverability of advertising expenses, as goodwill, *only if* the advertising (i) is designed primarily to improve the utility's image and (ii) is not in the best interest of the consumer. This test has not been met, for any of the advertising at issue. The record demonstrates that the costs associated with the advertising paid for messages intended to inform the customers about specific investments, programs, initiatives, benefits or opportunities that concern AIC's electric delivery service. That fact makes them recoverable. The case offered by Mr. Brosch does not prove otherwise. It reflects his bare conclusions. It does not show that the primary design of the advertising is to promote the Company's image. And even if it did, and there was an ancillary favorable impact on AIC's image, the messages still would be in the best interest of consumers. For these reasons, as discussed more below, the Commission should decline to adopt the AG’s adjustment.

a. Advertising expenses, if not political, promotional or goodwill in their purpose or primary design, or if in the best interest of consumers, are recoverable operating expenses.

Advertising expenses are recoverable in rates. No party says otherwise. And the Public Utilities Act gives the criteria for recovery. Section 9-225 identifies categories of advertising that “shall be considered allowable operating expenses for gas, electric, water or sewer utilities.” 220 ILCS 5/9-225(3). The allowable categories include advertising that informs consumers how they can conserve energy or reduce peak demand, concerns safety measures, promotes the use of energy efficient appliances, equipment or services, or promotes off-peak usage. *Id*. The express statutory categories, however, are not exclusive. A utility’s allowable advertising expenses also include “other” categories of advertisements, which are not political, promotional, institutional or goodwill advertisements. *Id*. In addition, in reviewing expenses under this provision, the Commission shall consider, among other things, whether the advertising at issue is “necessary” “to promote more efficient use of the public utility’s system.” 83 Ill. Adm. Code 295.10(a). These broad standards provide the Commission with the framework for allowable advertising.

Section 9-225 also specifies what advertising expenses cannot be included in rates—expenses for “promotional, political, institutional or goodwill advertising.” 220 ILCS 5/9-225(2). And the Act describes what constitutes these categories. Political advertising is “for the purpose of influencing public opinion with respect to legislative, administrative or electoral matters, or with respect to any controversial issue of public importance.” 220 ILCS 5/9-225(1). Promotional advertising is “for the purpose of encouraging any person to select or use the service or additional service of a utility or the selection or installation of any appliance or equipment designed to use such utility's service.” (*Id.*) Goodwill or institutional advertising is “designed primarily to bring the utility's name before the general public in such a way as to improve the image of the utility or to promote controversial issues for the utility or the industry." (*Id*.) These categories—and whether advertising belongs in any—dominate the debate on recoverability.

For each of these categories (e.g., political, promotional, and goodwill), the General Assembly has included an element of intent that must be established, before the expense can be excluded. There must be sufficient evidence in the record on the "purpose" or "design" of the advertisement. Political advertising must have "the purpose" of influencing public opinion on legislative matters. Promotional advertising must have "the purpose" of encouraging a resident to use a utility's service. And goodwill advertising must be "designed primarily" to improve the public image of the utility.

A witness's conclusory opinion that the advertisement has the effect of promoting the utility's image is not sufficient. The Commission has recognized the party with the burden of proof on intent—the party proposing the adjustment. *Commonwealth Edison Co.*, Docket 11-0721, Order at 102 (May 29, 2012) ("Staff has not made a showing that the two advertisements it places at issue are goodwill in nature…."). The Commission also has held that, for advertising allegedly "designed primarily" to be goodwill, the party proposing the adjustment must show that "the promotional aspect of the advertisement outweighs the message of the advertisement." *Id*. In other words, even if the advertisement has the ancillary benefit of promoting the utility's image, the benefit of the primary recoverable message still trumps.

The Act also provides that expenses for political, promotional, or goodwill advertising are still recoverable in rates—when "the Commission finds the advertising to be in the best interest of the Consumer…." 220 ILCS 5/9-225(2). And the Commission has applied this standard, in allowing advertising expenses, which may have improved the utility's image, to be recovered in rates. S*ee*, *e.g.*, *Illinois Power Co.*, Docket 91-0147, 1992 Ill. PUC LEXIS 97, 131

P.U.R.4th 1, Order at *176-77 (Feb. 11, 1992) (economic development advertisements were in the best interest of consumers); *Commonwealth Edison Co.*, Dockets 87-0427, 87-0169, 88-0189 and 88-0219, 1988 Ill. PUC LEXIS 11, 117 P.U.R.4th 401, Order at *55-57 (Dec. 30, 1988) (advertisements encouraging the use of electric heat pumps, even if promotional, concerned energy conservation and were in the best interest of consumers). Again, the focus remains on whether the advertising's primary message is a recoverable message.

The AG suggests that the Company did not evaluate the advertising expenses at issue, "based on whether the ad is promoting [AIC's] public image or is necessary for any specific business purpose." (AG Ex. 3.0 at 8:137-39.) That is not true. The Company considers the necessity of communication expenses, when it budgets for and executes advertising initiatives, and when it seeks cost recovery of the related expenses in rate proceedings. (Ameren Exs. 5.0 at 18-19; 17.0 at 6.) The Company's focus is to produce and publish external messages that educate and inform customers on the delivery systems, including the investments and initiatives implemented to maintain and improve safety and reliability, the benefits and programs available to customers, and the events that are impacting the delivery system, such as storms and other causes of power outages. (Ameren Ex. 5.0 at 18.) The Company strives to find cost-effective and efficient means to reach the public on issues important to delivery service. (*Id*. at 19.) The Company is cognizant of whether a communication is an allowable advertising expense under Section 9-225. (Ameren Exs. 5.0 at 21-22; 17.0 at 6.) The Company prepares detailed schedules and provides supporting workpapers in support of the communication expenses included in the revenue requirement. (Ameren Exs. 5.0 at 27-28; 11.0 at 9-10.) The Company discusses, in its direct filing, the Commission's prior disallowances. (*See*, *e.g.*, Ameren Ex. 5.0 at 30.) And the Company self-excludes individual charges in its direct filing. (Ameren Exs. 5.0 at 28; 5.2; 5.3.)

The record demonstrates that the Company is conscious of the standards of recoverability when incurring communication expenses, and transparent in the presentation of advertising expenses in rate cases. The AG has not provided evidence that rebuts the rigorous review that AIC performs.

The Company's diligence in preparing the rate filing should not be questioned. There has been a thorough vetting of the 2014 advertising expenses, and the standards for recovering them. The issue is whether Mr. Brosch has applied correctly the statutory criteria and supported his adjustments with more than just conclusory statements. The record says that he failed in both respects. As discussed below, the record demonstrates that the advertising expenses proposed for disallowance by Mr. Brosch are recoverable in rates. The content of AIC's advertisements had sufficient detail. The support for the AG's adjustments did not. The primary design of the advertisements was not to improve the Company's image; it was to inform and educate the public on the improvements, initiatives, benefits, programs, and opportunities related to AIC's electric delivery service. To the extent that the advertising caused any ancillary enhancement to the Company's image, it did not outweigh the benefits of the recoverable messages. The advertising remained in the best interest of the consumers, and the expenses are recoverable.

b. The advertising expenses included in the AG's adjustments were prudent and reasonable expenditures messages intended to inform customers about specific investments, programs, initiatives or opportunities related to electric delivery service.

Mr. Brosch has identified the specific advertisements that account for his adjustment: $328,277 for the production of "Energy at Work" television advertising (Ad Example No. 20.1), $341,228 for advertisements related to specific EIMA-related infrastructure improvements (Ad Examples Nos. 21 and 54), $40,935 for Facebook messages (Ad Example Nos. 1 and 54.3), and $23,300 for St. Louis Cardinals radio advertisements (Ad Example No. 46.). The evidence in the record, however, shows that the messages associated with these advertisements meet the standard for recoverable costs. In the case of the EIMA-related infrastructure advertising, the record shows that the content and design of the advertisements make them distinguishable from the advertisements at issue in the Company's last formula rate case, Docket 14-0317. Mr. Brosch hasn't provided sufficient evidence to prove that the advertisements were actually "designed primarily" to improve the Company's image. AIC's evidence, on the other hand, including the visual and audio messages accompanying the ads, shows that the advertising, even if it has an ancillary positive impact on the Company's reputation, is in the best interest of the consumer. The evidence opposing Mr. Brosch's adjustment is discussed further below.

i. The fees to produce Energy at Work television ads are recoverable expenses for advertisements primarily designed to inform customers about infrastructure improvements and the impact on their service.

In direct testimony, Mr. Brosch proposed an adjustment to remove advertising expenses for planned "Energy at Work" television ads (Ad Example No. 20.1) that he claimed AIC was producing "to instill a favorable public image of its business." (AG Ex. 1.0 at 23:558-559.) The planning document quoted by Mr. Brosch indicates that the advertisements would "follow an Ameren Illinois employee" discussing "one of the forward-thinking initiatives" and would "include an end benefit." (AG Ex. 1.0 at 23; Ameren Ex. 11.3 at 2.) The draft script indicated that improvements to the grid had improved reliability by 20 percent. (*Id.*) (The final scripts published in 2015 were included in the record as Ameren Exhibit 11.5.[2]) Mr. Brosch claimed that the draft script "clearly intended to foster favorable public sentiment toward the Company." (AG Ex. 1.0 at 23-24:581-82.) Mr. Brosch believes that this planned initiative was "essentially

[2] The record contains links to the final, published 2015 television ads. (Ameren Ex. 17.0 at 11.) https://www.youtube.com/watch?v=Rg3mXGniqsU&list=PLZyH8MOhGx8ojP1WaQJHqUgzW4LdhkN6C&index=8
https://www.youtube.com/watch?v=cChog17EibM&list=PLZyH8MOhGx8ojP1WaQJHqUgzW4LdhkN6C&index=9

the same media campaign" and the draft advertisements were "the same type" disallowed by the Commission in Docket 14-0317, the last formula rate update case. (*Id*. at 23:553, 24:586.)

Mr. Brosch is mistaken. The planned televisions ads are not "the same type" disallowed in Docket 14-0317 and are not part of "the same media campaign." In Docket 14-0317, the Commission disallowed 2013 expenses for "Focus Forward – Manage Energy Use" (FFMEU) advertisements, which were 30-second television and radio spots and 15-second digital spots intended to educate customers about EIMA-related improvements. (Ameren Exs. 11.0 at 14; 11.2.) The Commission believed the "content" of the advertisements, "rather than informing or educating the public about AIC's system upgrades and how they will impact service, is consistent with the goal of improving AIC's image." *Ameren Illinois Co.*, Order, Docket 14-0317 (Dec. 10, 2014) at 53. The problem, from the Commission's view, was that the content in the advertisements did "not direct attention to particular investments or types of benefits…." *Id*. As indicated in the Company's direct filing and again in the Company's rebuttal filing however, AIC did not incur expenses in 2014 associated with the FFMEU advertisements. (Ameren Exs. 5.0 at 30; 11.0 at 16.) AIC also reviewed the 2014 advertising expenses included in the revenue requirement, in preparing this rate filing, to verify that the content of the advertisements gave attention to "particular investments or types of benefits." (Ameren Ex. 11.0 at 16.) The expenses incurred in 2014 for the planned television commercials published in 2015 concerned a different advertising initiative (Energy at Work), and, as discussed below, had different content.

The basis for Mr. Brosch's adjustment for the planned Energy at Work televisions ads are the "images of hard working Ameren employees" "explaining improvements to service, new technologies and improved reliability." (AG Ex. 1.0 at 23:580-81.) These facts alone do not support the conclusory opinion that the advertising was "designed primarily" to improve AIC's image. Indeed, they are facts that distinguish the final scripted Energy at Work advertisements from the FFMEU advertisements. The content of the published commercials gives attention to particular investments (visual) and types of benefits (audio). (Ameren Exs. 11.0 at 22; 17.0 at 22.) The ads utilize actual AIC field operations personnel to act as the voice resonating with the public on improvements that AIC is making to the delivery system and how they benefit the customer. (Ameren Exs. 11.0 at 18; 17.0 at 13.) The ads showcase actual job sites and the new equipment and technology being installed, such as the "Intellirupter," which AIC is installing to quickly detect service disruptions and re-route power from sources to prevent customers from losing power. (*Id*.) And the ads discuss the specific ratepayer benefits of the improvements: more than 800 new jobs and improved reliability by 20 percent. (Ameren Ex. 11.5.)

Mr. Brosch claims that the final published Energy at Work televisions advertisements are "of no tangible benefit to AIC ratepayers." (AG Ex. 3.0 at 13:291.) That is not true, and Mr. Brosch does not support that opinion with any facts or analysis. Educating the customers on EIMA-related capital investments is the primary design of the advertisements, and it is a prudent expense. The feedback from AIC's delivery customers indicates that they want to know how the Company is spending their rate dollars and what whose changes mean to the consumer, particularly the incremental capital dollars that AIC is spending to fulfill its EIMA-related commitments. (Ameren Exs. 11.0 at 19; 17.0 at 11, 14.) More importantly, the customer feedback indicates that they want to know why the projects should matter to them (i.e., what benefits will they will be receiving). (Ameren Ex. 17.0 at 11.) The Company's research also indicates that a large majority of AIC customers are unfamiliar with the overhaul of the State's electric infrastructure. (*Id*. at 12.) Results of AIC's latest monthly survey (August 2015) of AIC customers reveals that 73.83% of AIC customers have "never heard of" advances that are being made to change the way electricity is delivered. (*Id*.) This research indicates that a large segment of the customer base still needs to be educated about the changing electric grid and, more importantly, how those changes will provide benefits to the consumer. (*Id*. at 12-13.)

ii. The fees to produce and publish other advertisements on infrastructure improvements are similarly recoverable.

As mentioned above, Mr. Brosch's adjustment to advertising expense includes other costs incurred in 2014 on infrastructure-related advertisements. The work product included in Ad Example No. 21 (Ameren Ex. 11.4) include scripts, sample screenshots and graphics for two advertisements produced and published in 2014 to educate customers about specific upgrades to technology and substation equipment that would impact the reliability of service. (Ameren Ex. 11.0 at 17, 20.) They highlight two particular EIMA-related improvements to the AIC electric delivery system that AIC is implementing: 1) the Intellirupter, which is technology to quickly detect a service interruption and re-route power from another source, thereby saving customers money; and 2) the expansion of AIC's substations, which ensures that electric service capacity is increased so that the growing need for power can be delivered to customer locations. The scripts and embedded videos included in Ad Example No. 54 (Ameren Ex. 11.7) also describe the reliability benefits of the "smart switching" Intellirupter and substation upgrades.

The record demonstrates that the purpose of these advertisements is to educate customers about the impact of its EIMA-related investment and how their ratepayer dollars are improving the performance and reliability of the State's energy delivery infrastructure. (Ameren Ex. 11.0 at 20, 24.) The record also demonstrates that these 2014 advertisements were not part of the 2013 FFMEU campaign, and that they provide much more detail on specific investments than the 2013 advertisements at issue in Docket 14-0317. (*Id*.; Ameren Exs. 11.4; 11.7.) Mr. Brosch hasn't offered any detailed explanation why these advertisements are "of the same type" at issue in Docket 14-0317. And he hasn't provided support for his suggestion that they constitute goodwill advertising. As noted above, the delivery service customer wants to know how rate dollars are being spent to improve the performance of the electric grid. Demonstrating how a piece of technology reduces outage times or re-routes power to the home illustrates an identifiable ratepayer benefit of such improvements, and shows why the advertising is in the best interest of the consumer.

iii. Facebook fees to publish and "boost" messages to targeted audiences are recoverable expenses for postings primarily designed to engage and educate the Company's customers, not improve its image.

In direct, Mr. Brosch recommended that the Commission disallow charges incurred to publish messages on Facebook. (AG Ex. 1.0 at 24.) He gave one reason—the advertising "appears to be aimed at generating 'likes' for the Company on social media." (*Id*. at 24:596-97.) No other explanation was provided. Mr. Brosch doesn't even label the advertising as goodwill. The lack of supporting analysis alone should demand the rejection of the proposed disallowance.

The record, however, affirmatively supports the recoverability of the expenditures. Social media is a channel that AIC uses to engage directly with customers and provide them with information on a variety of subjects. (Ameren Ex. 11.0 at 25.) The primary purpose of using Facebook or any social media channel messages is not to generate "likes." (*Id*. at 27.) The primary purpose is to engage with customers, resolve their issues and concerns, and develop compelling, interactive content. (*Id*.; Ameren Ex. 11.8 at 2.) For businesses with a presence on Facebook, a "like" means that another Facebook user has stated an interest in hearing more from the business and interacting with its representatives. (Ameren Ex. 17.0 at 17.) It is not a measure of the utility's reputation or an indication that the utility is trying to improve its image.

Services such as Facebook provide AIC—and really any business—with a cost-effective means to engage in one-on-one, real-time conversations and share information with a network of customers. (Ameren Exs. 11.0 at 25; 11.10.) Indeed, social media is becoming a preferred advertising channel. In storm situations, for example, the AIC social media customer service reps use social media to communicate and share updated information on the status of restoration efforts. (Ameren Ex. 11.0 at 27.) To abandon the use of social media channels for customer communications would be akin to abandoning the telephone services used by AIC's customer service teams. (*Id.*) AIC is an active participant in social media because the Company's customers expect it to be. (*Id.*)

Facebook does not charge a fee to create and use an account. But, like other broadcast channels, it provides a paid-for publication service. It allows AIC, for a fee, to target a message to reach a certain audience. (Ameren Exs. 11.0 at 26; 11.9.) And the record contains examples of these targeted communications. For example, AIC can pay a fee to publish a "boosted" post about infrastructure projects in Belleville and Vermillion in the newsfeeds of Facebook users in those regions. (*Id.*) This service allows AIC to leverage social media as another channel to reach customers with the content that the Company has produced. (Ameren Ex. 11.0 at 25.)

Mr. Brosch claimed in rebuttal that the use of Facebook's publication service is "an apparent effort to improve the public perceptions of the utility." (AG Ex. 3.0 at 21:462-63.) The record, however, does not support that assertion. The evidence shows that the Company's use of Facebook as a broadcast channel is intended to engage customers, not enhance its image. No proof has been offered that specific Facebook postings were intended to be image enhancing. The AG has not even made that allegation. On the contrary, the evidence in the record supports the recoverability of the expense and the use of Facebook as in the best interest of the consumer.

iv. The fees for St. Louis Cardinals radio advertisements are recoverable expenses for advertising primarily designed to encourage businesses to relocate or expand, and inform the public on employment opportunities.

In direct, Mr. Brosch recommended that the Commission disallow fees for four St. Louis Cardinals radio advertisements. (AG Ex. 1.0 at 24.) As with his adjustment for Facebook fees, his basis for the disallowance was brief—he claimed that the radio spots characterized AIC as "supportive of economic development" and "employing talented people." (*Id*. at 24:593-94.) He didn't explain why these characterizations justified his disallowance. And he didn't even allege that the advertising was goodwill. There simply would not be enough there to support an adjustment, even if AIC had remained silent. The Company, however, rebutted the assertions.

Two of the four radio scripts encouraged the public to seek out available opportunities for employment. (Ameren Exs. 11.0 at 28; 11.11.) The Act expressly recognizes that expenses for advertising that informs customers about employment opportunities are recoverable. 220 ILCS 5/9-225(3); (Ameren Exs. 11.0 at 29; 17.0 at 17.) Mr. Brosch in rebuttal states that the scripts "do not provide any detailed information about specific job openings…." (AG Ex. 3.0 at 21:481-82.) That complaint is a red herring. It would not be possible to list all job openings in a 30-second radio advertisement. (Ameren Ex. 17.0 at 17.) The advertisement lists the types of available jobs (IT, Engineering, Customer Service, etc.) and, in turn, encourages listeners to learn more by visiting the careers section of the Ameren.com website. (*Id*.; Ameren 11.1.)

The other two radio scripts encourages businesses to contact Ameren Corporation about their plans to expand or relocate in communities served by Ameren Illinois and the other operating companies. (Ameren Exs. 11.0 at 29; 11.1.) These scripts are different from the economic development advertising identified by Staff that AIC agreed to disallow. In that instance, the advertisement at issue, the St. Louis Business Journal "Powering Growth" script, generally touted Ameren Corporation's role in encouraging economic growth in local communities. (Ameren Ex. 11.0 at 29.) The Commission, however, has found that expenses for advertisements that encourage economic development are recoverable. *See Illinois Power Co.*, Order, Docket 91-0147, 1992 Ill. PUC LEXIS 97, 131 P.U.R.4th 1, at *176-77 (Feb. 11, 1992) (economic development advertisements were in the best interest of consumers). In Docket 91-0147, the Commission noted that economic development advertising benefits ratepayers by spreading recovery of fixed costs over more units of sales, expanding business and employment opportunities in its service territory, and increasing tax revenues for State and local governments. *Id*. at *176. AIC agrees with the Commission that expenses for advertisements that encourage the expansion of businesses and creation of new jobs in Illinois should be recoverable in rates. (Ameren Ex. 11.0 at 29.)

Mr. Brosch claims that these radio spots "are for the apparent purpose of associating Ameren [Corporation]'s name and reputation with Cardinals baseball." (AG Ex. 3.0 at 22:483-84.) That allegation is unproven, and untrue. The purpose behind advertising on St. Louis Cardinals radio is the ability to deliver the messages to the large, guaranteed audience listening to games on stations that broadcast to communities and customers in AIC's service territory. (Ameren Ex. 17.0 at 17-18.) Mr. Brosch claims that the Company has not showed "any benefits to Illinois ratepayers resulting from such radio advertising" and have not demonstrated that "Cardinals baseball radio ads represent a necessary business expense." (AG Ex. 3.0 at 22:485-87.) Delivering an educational message to thousands of customers through a viable network of Illinois radio affiliates, however, is a prudent, cost-effective use of ratepayer dollars.

For the reasons identified and explained above, the Commission should decline to adopt any portion of the AG and Mr. Brosch's adjustment to advertising expenses.

2. Safety Awareness and Recognition Spending

Staff agrees that safety is important, and that recognizing safety accomplishments benefits customers and reduces costs. Yet, Staff wants to disallow the $154,000 that AIC spent in 2014 to recognize its employees' safety achievements and encourage future ones. (A small cost relative to the potential cost of a single injury.) The basis for Staff's disallowance is its belief that this cost is duplicative of other safety-related incentive compensation. The Commission can reject Staff's position for (at least) two reasons: (1) safety recognition awards and safety-related incentive compensation are not duplicative; and (2) EIMA expressly allows recovery of both. So, AIC should recover both.

a. Safety recognition awards and safety-related incentive compensation are not duplicative.

Safety is critical to AIC's employees and its customers. (Ameren Ex. 13.0 at 2.) Therefore, AIC uses every means to ensure safety, and to keep its employees ever-vigilant of safety issues. (*Id*. at 15.) AIC provides employees safety skills training, ergonomic tools and equipment, and an annual apprentice safety focus, and it encourages employees' involvement in safety committees. It also has policies, rules, and procedures to ensure safe work. (*Id*. at 4, 9.) And AIC also provides employees the opportunity to earn safety-related incentive compensation and safety recognition awards. (*Id*.) AIC has many safety "tools"; but this doesn't mean that any one safety measure is duplicative of another.

i. Safety recognition awards continuously focus employees on safety.

Safety recognition awards are discrete, tangible awards that employees can earn through exceptional safety accomplishments, like avoiding preventable accidents for an entire year. (*Id*. at 3.) They are awarded under AIC's Company-wide 2014 Safety Awareness and Recognition Spending Guidelines. (*Id*. at 4.) These guidelines limit both the amount and form that safety recognition awards can take, and ensure consistency and oversight of safety recognition spending. (*Id*. at 5.)

Per the guidelines, employees are eligible to earn safety recognition on an individual basis and on small group (departmental) short-term and long-term bases. (*Id.*) Employees earn individual recognition by personally avoiding any injuries or accidents in a calendar year. (*Id*. at 7.) Under the departmental short-term recognition program, which recognizes safety accomplishments on a rolling year basis, each department budgets up to $100 per employee per year for safety programs, presenters at safety meetings (like a television weatherman to discuss severe weather preparedness or a member of drug enforcement to discuss meth lab awareness), safety recognition breakfasts or luncheons or an annual safety recognition dinner, and other safety-related expenses. (*Id*. at 5-7.) Departments can also receive a recognition dinner or safety awareness item for long-term success—five rolling years without a safety incident. (*Id*. at 7.)

Importantly, safety recognition awards remind employees to work safely every day, and thus they continuously promote AIC's employees' focus on safety. (*Id*. at 3.) And, at AIC, it is exceptionally important to do this: AIC employees may perform a task a hundred times and they must work efficiently, to keep the lights on; at the same time, they work in dangerous conditions. So, they must never forget the potential safety risks that their surroundings pose. (*Id.* at 3-4.)

While the reasons to avoid safety risks are obvious, safety recognition awards reduce the costs that customers ultimately pay through rates because they help reduce the incidence of preventable accidents. Consider the $81,000 in workers compensation costs that AIC paid in December 2014 for an injury caused by a single preventable accident. The modest cost of safety recognition is clearly offset by the costs of the injuries it helps avoid. (*Id*. at 8.)

ii. Incentive compensation focuses employees on safety too; but this doesn't mean that it's duplicative of safety recognition awards.

In 2014, AIC spent approximately $154,000 to recognize and award its employees' departmental safety achievements. (Ameren Ex. 13.0 at 13.) Staff agrees that safety—employee safety and customer safety—are important to utility customers. (Ameren Cross Ex. 2.0 at 1-2 (AIC-ICC 4.01, 4.02.) Nevertheless, Staff witness Ostrander thinks that AIC shouldn't recover this cost. (ICC Staff Ex. 9.0, Sch. 9.01.)[3] The sole reason: Staff believes safety recognition costs are duplicative of the safety-related incentive compensation costs that AIC recovers under EIMA. (ICC Staff Ex. 4.0 at 3.) While Staff acknowledges that the two costs recognize safety at different levels (individual, departmental, corporate) (ICC Staff Ex. 9.0 at 4), Staff nevertheless complains that "[b]oth the safety-related incentive compensation and safety recognition awards have the same goals related to recordable incidents, lost time accidents, and preventable motor vehicle accidents" (*id.* at 4:73-76). Staff cites the Docket 13-0301 order's finding that the costs were duplicative and disallowed in that case. (ICC Staff Exs. 4.0 at 3; 9.0 at 4-5.) And then Staff offers nothing more in support of its position.

Safety recognition spending is not duplicative of safety-related incentive compensation. While they both recognize and incentivize safety accomplishments, they do so differently.

First, safety-related incentive compensation expense is earned based on the performance of a large work group—a division or the entire Company. (*Id.* at 9-10.) If the division or the Company achieves their safety-related goals, all eligible employees share in that success; if they

[3] Staff also proposed to disallow the $147,000 AIC spent in 2014 to recognize its employee's individual safety accomplishments as duplicative of safety-related incentive compensation. (ICC Staff Ex. 4.0 at 3, Sch. 4.01.) AIC accepted that disallowance, not because it agreed with Staff, but because it noted the amount was paid to honor 2013 safety recognition commitments made to individual employees before the Company's 2014 Safety Awareness and Recognition Spending Guidelines were established. (Ameren Ex. 13.0 at 14.)

don't, no one is rewarded. (*Id.*) As explained, safety recognition awards are earned on an individual or small work group (departmental) basis. (*Id.* at 10.) Therefore, an employee may still be recognized and rewarded for his safety accomplishments with a safety recognition award even if, due to overall division or Company performance, he won't receive safety-related incentive compensation that year. (*Id.*)

Second, safety-related incentive compensation is paid annually in March of the year following the safety performance. (*Id.*) Safety recognition awards, however, can be provided more often and more immediately, to constantly reinforce safety. Again, they serve as continuous reminders to employees to work safely. (*Id.*)

Third, safety recognition awards, unlike incentive compensation, are not entirely monetary. As explained, they can be a safety luncheon where safety issues are discussed or the attendance at a safety meeting of a guest speaker from the state police to talk about risks with distracted drivers. (*Id.*)

The rebuttal testimony of Ameren witness Barud offered myriad examples of how safety recognition awards contribute to a safe workplace and workforce, separate and apart from safety-related incentive compensation. (*Id.* at 10-11.) He explained, for example, that Division VI employees are awarded incentive compensation based on the collective performance of all approximately 440 employees. This means, however, that employees in the smaller Anna Electric Department could have a great year from a safety perspective, but not receive any safety-related incentive compensation if other departments in Division VI don't meet their safety goals. Safety recognition awards provide an avenue for Anna Electric Department employees to still receive recognition for their exceptional safety performance. (*Id.* at 11.)

Staff's position is in essence that these employees should not earn an individual award and also be eligible for a larger-group award, or the converse. But the record shows why eligibility for both is appropriate. Put simply, safety recognition awards *complement* safety-related incentive compensation, not duplicate it; the two work hand-in-hand to promote safety at AIC. (*Id*. at 16.) While incentive compensation may provide a meaningful monetary incentive for employees, safety recognition awards provide a meaningful way of incentivizing them on a smaller basis and a timelier basis because they allow AIC to immediately reward employees for safety performance. (*Id*. at 12-13.) If AIC did not use safety recognition awards, it would have no means to motivate and reward safety accomplishments at the individual or departmental levels, or on an immediate, rolling basis. (*Id*.; Ameren Ex. 19.0 at 3.) Perhaps this best highlights why they are not duplicative of safety-related incentive compensation. (Ameren Ex. 13.0 at 15.)

iii. Circumstances have changed since the Docket 13-0301 Order

AIC acknowledges the Docket 13-0301 order's finding that the 2012 safety recognition spending and safety-related incentive compensation costs in that case were duplicative, and disallowing those costs. *See Ameren Ill. Co.*, Docket 13-0301, Order at 59-60, 69 (Dec. 10, 2013). In that case, the Commission also perceived a lack of definitive standards for reviewing and evaluating employee credit card purchases, including safety recognition awards. *Id*.

But circumstances have changed. Since that docket, AIC developed the 2014 Safety Awareness and Recognition Spending Guidelines to limit and govern safety recognition spending. (Ameren Ex. 13.0 at 4.) And, here, Staff takes no issue with those guidelines, which Staff and the Commission reviewed in AIC's last formula rate update. *See Ameren Ill. Co.*, Docket 14-0317, Order at 70-71, 74 (Dec. 10, 2014). And AIC has now extensively explained, to better the Commission's understanding, how safety recognition awards are not duplicative of safety-incentive compensation and why, like AIC's other safety "tools," both are needed to promote safety at AIC. (*See generally* Ameren Exs. 13.0 & 19.0.)

Moreover, the Commission has since recognized that rewarding the same operational goals, like safety goals, in different ways does not make the related incentive costs duplicative, rather it *reinforces* the importance of those goals. In Docket 14-0312, ComEd's 2014 formula rate update case, the Commission rejected a challenge to recovery of the cost of ComEd's Long Term Performance Plan (LTPP) and short-term Annual Incentive Plan (AIP) simply because the key performance metrics underlying the plans were identical. *Commonwealth Edison Co.*, Docket 14-0312, Order at 54-55 (Dec. 10, 2014). The Commission found that "[u]se of the same metrics does not render the LTPP duplicative of the AIP." *Id*. at 55. Rather, the Commission found that the plans did not increase total employee compensation, and further found "that because the AIP includes the goals that are most critical to ComEd's business, those goals are also used in the LTPP to ensure ComEd's key managers remain focused on them." *Id*. Of note, in that case, Staff agreed that, although the underlying metrics were identical, the plans were not duplicative, in part because they measured performance over different terms. *Id*. at 53. And Staff took the position that "use of similar operational metrics places even more emphasis on the achievement of metrics that provide ratepayer benefits." *Id*.

The same reasoning applies here. Simply because safety recognition awards and safety-related incentive compensation incentivize safety does not mean they are duplicative. It means they are complimentary, and are two of the many ways that AIC reinforces its safety goals, since safety—employee safety and customer safety—is critical to AIC and ultimately its customers.

b. EIMA permits recovery of costs that incentivize safety.

EIMA requires that AIC's performance-based formula rate "[p]rovide for the recovery of the utility's actual costs of delivery services that are prudently incurred and reasonable in amount consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(1). The rate also must "permit and set forth protocols, subject to a determination of prudence and reasonableness consistent with Commission practice and law, for the . . . recovery of incentive compensation expense that is based on the achievement of operational metrics, including metrics related to . . . safety." ILCS 5/16-108.5(c)(4)(A).

As explained, AIC actually incurred $154,000 in 2014 to recognize and reward departmental safety accomplishments. (Ameren Ex. 13.0 at 13.) Staff claims that this amount is imprudent and unreasonable because it is duplicative of safety-related incentive compensation costs, and so unnecessary. (ICC Staff Ex. 4.0 at 4.) For the reasons explained above, however, the costs are not duplicative.

Apart from this, Staff would seem to agree that the 2014 safety recognition cost is prudent and reasonable. Staff agrees that safety recognition awards benefit AIC's customers. (Ameren Cross Ex. 2.0 at 3 (AIC-ICC 4.03).) Indeed, when employees act safely it helps ensure that customers also are safe. (Ameren Ex. 13.0 at 8.) Further, increased safety equates to reduced accident-related costs, which ultimately impact customer rates. (*Id.*) Again, Staff agrees: it doesn't dispute that, "all else equal, a reduction in employee injuries equates to a reduction in the costs associated with employee injuries, such as workers compensation costs." (Ameren Cross Ex. 2.0 at 7 (AIC-ICC 4.07).) By Staff's own admission, safety recognition spending itself is appropriate. And Staff never testified that the 2014 amount was too high or otherwise unreasonable. So, Section 16-108.5(c)(1) permits recovery of that cost.

Section 16-108.5(c)(4)(A) does too. That section does not define the "incentive compensation expense that is based on the achievement of operational metrics, including metrics related to . . . safety"—particularly to whom the compensation is given (large group or small group or individual employees), when it is given (annually, on a rolling, basis, or more immediately), or what form it takes (cash, a tangible award, a recognition luncheon). 220 ILCS 5/16-108.5(c)(4)(A). The key concept, instead, is that it is given to incentivize safety metrics. That is precisely what safety recognition awards do.

Staff would seem to agree with this as well. In discovery, Staff witness Ostrander agreed that safety recognition awards: (1) "compensate employees based on the achievement of safety metrics"; and (2) "incentivize employees to achieve safety metrics." (Ameren Cross Ex. 2.0 at 5-6 (AIC-ICC 4.05, 4.06).) Moreover, he agreed that "that there can be different forms of incentive compensation by which to incentivize employees to achieve safety metrics." (*Id*. at 8 (AIC-ICC 4.08).) And he admitted that it is not impermissible for AIC to incentivize employees to achieve safety metrics on individual and departmental bases (as it does with safety recognition awards). (*Id*. at 9-10 (AIC-ICC 4.09, 4.10).) So, for Staff to argue that safety recognition awards are not recoverable ignores Section 16-108.5(c)(4)(A), and puts form over substance.

Safety is undeniably important. Therefore, it is appropriate for AIC to use every opportunity to focus its employees on safety, including through safety recognition awards and corporate-wide safety-related incentive compensation. And just as it would not be appropriate to disallow the costs of safety training, safe equipment, or safety committees, it is not appropriate to disallow the $154,000 that AIC spent in 2014 to recognize its employees' departmental safety accomplishments. Hence, the Commission should reject Staff's proposal to disallow that cost.

C. Recommended Operating Revenues and Expenses

1. Filing Year

The proposed total filing year operating revenues and expenses are shown on Schedule FR A-1.

2. Reconciliation Year

The proposed total reconciliation year operating revenues and expenses are shown on Schedule FR A-1 REC.

IV. COST OF CAPITAL AND RATE OF RETURN

A. Uncontested and Resolved Issues

1. Cost of Capital and Overall Rate of Return on Rate Base

a. Filing Year

Staff and AIC concur that a hypothetical capital structure should be used in this case, and recommend that the following capital balances and attendant costs should be used to calculate both the filing year and reconciliation year revenue requirements:

	Balance	Weight	Cost	Weighted Cost
Short-Term Debt		0.000%	0.419%	0.000%
Long-Term Debt		48.613%	6.084%	2.958%
Preferred Stock		1.387%	4.979%	0.069%
Common Stock		50.000%	9.140%	4.570%
Bank Facility Costs				0.050%
Total Capital		**100.000%**		**7.646%**

(ICC Staff Ex. 5.0 at 2-3; Ameren Ex. 4.0 at 9-16.)

The agreed capital structure is the result of constructive and collaborative discussions between Staff, AIC, and IIEC undertaken pursuant to the Commission's Order in Docket 12-0001. (Ameren Ex. 4.0 at 10-11.) In that Order, the Commission encouraged the parties to meet outside of formal proceedings to discuss the ratio of common equity included in AIC's capital structure, and to provide the Commission with a report on the issue. *Ameren Ill. Co.*, Docket 12-0001, Order at 121 (Sept. 19, 2012). AIC met with Staff and IIEC toward that end. One result of the meetings is the agreed equity ration included in the capital structure proposed in this case. (Ameren Ex. 4.0 at 10-11; *see also* Ameren Ex. 4.1.) Staff and AIC further memorialized their understanding regarding AIC's capital structure in the confidential and proprietary Report Pursuant to the Order in Docket 12-0001. (Ameren Ex. 4.2.) In Docket 14-0317, the Company's last formula rate update case, the Commission approved the agreed common equity ratio as prudent and reasonable for establishing AIC's electric formula rate revenue requirement. (Ameren Ex. 4.0 at 11.)

b. Reconciliation Year

See supra, Section IV.A.1(a).

V. RECONCILIATION

The calculation of the reconciliation with interest is summarized on Ameren Ex. 10.1, Schedule FR A-4. The AG and CUB/IIEC submitted evidence regarding an adjustment to reduce the amount of interest on the reconciliation balance, by deducting accumulated deferred income taxes (ADIT) from the reconciliation balance before multiplying the balance by the weighted average cost of capital. This evidence was submitted to "preserve [their] position on this issue in the present formula rate update case, pending the Appellate Court's resolution of the appeals of the Commission's Docket Nos. 13-0553 and/or 13-0501 decisions [on this issue]." (AG Ex. 2.0, p.4.) Subsequently, the Illinois Appellate Court upheld the Commission's ruling in Docket 13-0553, and appeals of this same issue in Docket 13-0501 (and Docket 14-0317) were withdrawn. At hearing, the parties agreed on the record that this adjustment was no longer an issue for Commission consideration. (Tr. 30-32).

VI. REVENUE REQUIREMENT

A. Recommended Revenue Requirement

AIC's recommended revenue requirement in the filing year is shown on Ameren Exhibit 10.1, Schedule FR A-1. AIC's recommended revenue requirement for the reconciliation year is shown on Ameren Exhibit 10.1, Schedule FR A-1 REC.

VII. OTHER ISSUES

A. Uncontested and Resolved Issues

1. Incremental Plant Investment

Staff witness Hathhorn agreed that AIC provided information regarding actual and projected incremental plant investment, in compliance with Section 16-108.5(b)(2). (ICC Staff Ex. 2.0 at 10.) Ms. Hathhorn recommends that the Commission include certain language in its Order, as well as a table reflecting the amounts and types of plant investments. (*Id.* at 11-12.) AIC did not dispute this recommendation, and considers the matter resolved.

VIII. CONCLUSION

For all of the above reasons, Ameren Illinois Company d/b/a Ameren Illinois request that the Commission adopt the revenue requirement as proposed by Ameren Illinois Company.

Dated: October 6, 2015

Respectfully submitted,

Ameren Illinois Company
d/b/a Ameren Illinois

/s/ Albert D. Sturtevant
One of its Attorneys

Edward C. Fitzhenry
Eric Dearmont
Geoffrey F. Grammer
Kristol Whatley
AMEREN SERVICES COMPANY
One Ameren Plaza
1901 Chouteau Avenue
St. Louis, Missouri 63166
Telephone: (314) 554-3533
Fax: (314) 554-4014
efitzhenry@ameren.com
edearmont@ameren.com
ggrammer@ameren.com
kwhatley@ameren.com

Albert D. Sturtevant
Christopher W. Flynn
Anne M. Zehr
Hanna M. Conger
WHITT STURTEVANT LLP
180 North LaSalle Street, Suite 2001
Chicago, Illinois 60601
Telephone: 312-251-3017
sturtevant@whitt-sturtevant.com
flynn@whitt-sturtevant.com
zehr@whitt-sturtevant.com
conger@whitt-sturtevant.com

Christopher T. Kennedy
WHITT STURTEVANT LLP
88 East Broad Street, Suite 1590
Columbus, Ohio 43215
Telephone: 614-224-3912
kennedy@whitt-sturtevant.com

CERTIFICATE OF SERVICE

I, Albert D. Sturtevant, an attorney, certify that on October 6, 2015, I caused a copy of the foregoing *Ameren Illinois Company's Initial Brief* to be served by electronic mail to the individuals on the Commission's Service List for Docket 15-0305.

<u>/s/ Albert D. Sturtevant</u>
Attorney for Ameren Illinois Company
d/b/a Ameren Illinois